

Message Text

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ACTION EB-08

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COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06
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TO SECSTATE WASHDC 2004

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SUBJECT: UPDATE OF INVESTMENT CLIMATE STATEMENT

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FOLLOWING IS THE UPDATED INVESTMENT CLIMATE STATEMENT
FOR TRINIDAD AND TOBAGO, AS REQUESTED IN REF (A). SECTIONS
BELOW APPROXIMATE BUT ARE NOT IDENTICAL TO THE FORMAT
SUGGESTED BY THE DEPARTMENT. IT IS SUGGESTED THAT SECTION
F BE CLEARED WITH OPIC BEFORE PUBLICATION.

A. GOVERNMENT ATTITUDES

1. THE GOVERNMENT'S ATTITUDE TOWARD FOREIGN INVESTMENT IN
TRINIDAD AND TOBAGO IS ESSENTIALLY A PRAGMATIC, THOUGH
STRONGLY NATIONALISTIC, ONE. IT LOOKS TO THE FOREIGN FIRM
AS A SOURCE OF TECHNOLOGY AND A CHANNEL FOR EXPORT
MARKETING, BUT WISHES TO MAINTAIN MEANINGFUL CONTROL OVER
OWNERSHIP AND MANAGEMENT OF THE ECONOMY IN LOCAL (AND LARGELY
GOVERNMENT) HANDS. IN LINE WITH THIS POLICY, IT HAS MADE
CLEAR THAT IT WANTS ANY FUTURE DIRECT INVESTMENT IN THIS
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COUNTRY BY FOREIGN CAPITAL TO TAKE THE FORM OF A JOINT
VENTURE, NORMALLY AS A MINORITY PARTNER. FOR MOST
INVESTMENTS WITH LOCAL PRIVATE CAPITAL, 60 PERCENT LOCAL
OWNERSHIP IS REQUIRED. ON MOST OF THE LARGE INDUSTRIAL
PROJECTS, THE LOCAL PARTNER IS THE GOVERNMENT, AND FOR THESE
PROJECTS THE CAPITAL SPLIT IS USUALLY 51/49. EXISTING FOREIGN
INVESTMENTS, WITH CERTAIN EXCEPTIONS, ARE EXPECTED TO PHASE

INTO JOINT VENTURES OVER THE NEXT SEVERAL YEARS. THERE ARE INDICATIONS THAT THE GOVERNMENT IS NOW MOVING MORE FORCEFULLY TO IMPLEMENT THIS POLICY, ALTHOUGH TAKEOVERS CONTINUE TO BE MADE ON THE BASIS OF NEGOTIATED SALE. THERE HAVE BEEN NO INSTANCES OF EXPROPRIATION, AND THERE HAVE BEEN NO CASES OF DISPUTED NATIONALIZATION SINCE TRINIDAD AND TOBAGO BECAME AN INDEPENDENT STATE IN 1962.

2. WHILE SOME SECTORS OF THE ECONOMY (SUCH AS BANKING, COMMUNICATIONS AND DISTRIBUTION) WILL BE RESERVED EXCLUSIVELY FOR LOCAL INVESTORS IN THE FUTURE, THE GOVERNMENT IS ACTIVELY SEEKING FOREIGN PARTNERS FOR OTHER TYPES OF INVESTMENT. IN ADDITION TO THE LARGE ENERGY-BASED INDUSTRIES DESCRIBED BELOW, INVESTMENTS FOR WHICH FOREIGN PARTNERS ARE ACTIVELY SOUGHT INCLUDE MANUFACTURING VENTURES WHICH PROVIDE INCREASED EMPLOYMENT OPPORTUNITIES, HAVE PARTICULARLY ATTRACTING

EXPORT POTENTIAL, OR BRING IN NEW TECHNOLOGY NOT ALREADY FOUND IN THIS COUNTRY.

B. ECONOMIC FACTORS

1. THE ECONOMIC OUTLOOK IN TRINIDAD AND TOBAGO IS GENERALLY BRIGHT. AN OIL EXPORTING COUNTRY, TRINIDAD AND TOBAGO RECORDS A SUBSTANTIAL BALANCE OF PAYMENTS SURPLUS, AND FOREIGN EXCHANGE RESERVES NOW STAND AT ABOUT \$1.2 BILLION.
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NATURAL RESOURCES OTHER THAN OIL AND GAS ARE LIMITED, HOWEVER, AND THIS RESOURCE STRUCTURE STRONGLY INFLUENCES THE GOVERNMENT'S ECONOMIC DEVELOPMENT STRATEGY.

2. WHILE THE GOTT DOES NOT HAVE A FORMAL DEVELOPMENT PLAN, ITS BROAD STRATEGY IS TO USE THE FINANCIAL RESOURCES GENERATED BY THE 1974 OIL PRICE INCREASE TO MAXIMIZE VALUE ADDED ON THE COUNTRY'S OIL AND GAS RESERVES. A NUMBER OF EXPORT-ORIENTED MAJOR PROJECTS ARE PLANNED. A FERTILIZER PLANT HAS RECENTLY BEEN COMPLETED; OTHER PROJECTS AT VARIOUS STAGES OF IMPLEMENTATION OR PLANNING INCLUDE AN IRON AND STEEL MILL, A SECOND FERTILIZER PLANT, A METHANOL PLANT, AND ALUMINUM SMELTER, AN LNG PLANT, AND EXPANSION OF THE STATE-OWNED REFINERY. THE INFRASTRUCTURE RELATED TO THESE PROJECTS IS ALSO BEING INSTALLED. MANY OF THESE PROJECTS WILL BE JOINT VENTURES WITH U.S. FIRMS. THE GOVERNMENT IS ALSO ACTIVELY PROMOTING INVESTMENT IN LIGHT MANUFACTURING INDUSTRIES, PARTICULARLY THOSE WHICH WILL COMPLEMENT THE MAJOR PROJECTS SUCH AS METALWORKING INDUSTRIES. AS ONE MEANS OF BROADENING LOCAL PARTICIPATION IN THE ECONOMY, THE GOVERNMENT HAS A PROGRAM FOR THE DEVELOPMENT OF SMALL BUSINESS.

3. THE CHIEF PROBLEMS FORESEEN IN IMPLEMENTING THIS

PROGRAM ARE BOTTLENECKS AND SHORTAGES IN SOME CRITICAL AREAS. THE CONSTRUCTION INDUSTRY PARTICULARLY HAS BEEN FEELING THE PINCH. AS DEVELOPMENT PROGRESSES, SKILLED MANPOWER WILL BECOME A CRITICAL FACTOR. PORT AND TRANSPORTATION FACILITIES, ALONG WITH OTHER PUBLIC UTILITIES, HAVE BEEN SEVERELY STRAINED IN RECENT YEARS. STEPS ARE BEING TAKEN TO ALLEVIATE THESE PROBLEMS, HOWEVER, AND IF PRESENT PLANS ARE COMPLETED ON SCHEDULE, THEY SHOULD NOT PROVE A SERIOUS CONSTRAINT ON NEW INDUSTRY.

4. UNEMPLOYMENT REMAINS A SERIOUS PROBLEM FOR THE ECONOMY AS A WHOLE, IN PART BECAUSE OF A MISMATCHING OF AVAILABLE SKILLS AND THOSE REQUIRED BY A RAPIDLY CHANGING ECONOMY. INFLATIONARY PRESSURES ARE HIGH; ALTHOUGH THE GOVERNMENT HAS BEEN ABLE TO KEEP THE COST OF LIVING INDEX DOWN TO A RELATIVELY MODEST 12
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PERCENT ANNUAL INCREASE, LARGELY THROUGH SUBSIDIZATION AND PRICE CONTROLS ON SOME BASIC ITEMS, MANY DISCRETIONARY EXPENDITURES TYPICAL OF MIDDLE CLASS FAMILIES HAVE BEEN RISING RAPIDLY.

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5. REAL GROWTH IS STRONGLY INFLUENCED BY OUTPUT IN THE PETROLEUM SECTOR, WHICH ACCOUNTS FOR ALMOST HALF OF GDP. BECAUSE OF LOW LEVELS OF PRODUCTION ON OLD FIELDS, OUTPUT IN THIS SECTOR GROWS SLOWLY, AND AGRICULTURE HAS ALSO BEEN STAGNANT ON THE WHOLE IN RECENT YEARS. NEVERTHELESS, THE STATE OF THE

ECONOMY HAS BEEN GENERALLY BUOYANT SINCE THE 1974 OIL PRICE RISE, AND REAL RATES OF GROWTH REACHED 7 PERCENT IN 1975 AND ALMOST 5 PERCENT IN 1976.

6. LIQUIDITY IN THE ECONOMY IS CLOSELY WATCHED BY THE CENTRAL BANK. NEVERTHELESS, THERE IS AN EXCESS OF INVESTABLE FUNDS, EVIDENCED BY SUBSTANTIAL OVERSUBSCRIPTIONS OF SHARE ISSUES OF SOUND COMPANIES WHICH HAVE BEEN PLACED ON PUBLIC SALE IN RECENT MONTHS. FOREIGN FIRMS SEEKING JOINT VENTURES SHOULD HAVE LITTLE DIFFICULTY IN ATTRACTING THE DOMESTIC SAVINGS NEEDED TO MAKE UP THE MAJORITY EQUITY.

C. INVESTMENT INCENTIVES

1. NEW INVESTMENTS ARE REVIEWED BY THE INDUSTRIAL DEVELOPMENT CORPORATION (IDC), AT WHICH TIME A PACKAGE OF INCENTIVES MAY BE AGREED TO, DEPENDING ON THE NATURE OF THE PROJECT AND WHAT IS REQUIRED TO MAKE IT ECONOMICALLY VIABLE. THESE MAY INCLUDE UNCLASSIFIED

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TAX INCENTIVES, DUTY-FREE IMPORT OF RAW MATERIALS OR EQUIPMENT, IMPORT PROTECTION, AND GOVERNMENT LOANS. THE IDC MAINTAINS A NORTH AMERICAN OFFICE IN NEW YORK AS A CONTACT FOR POSSIBLE JOINT VENTURE PARTNERS INTERESTED IN INVESTING IN TRINIDAD AND TOBAGO.

2. THERE ARE NO RESTRICTIONS ON THE TRANSFER OF EARNINGS, DIVIDENDS, ROYALTIES, ETC., EXCEPT THAT A PERCENTAGE OF EARNINGS MUST BE REINVESTED LOCALLY. ALL FOREIGN EXCHANGE TRANSACTIONS MUST BE APPROVED BY THE CENTRAL BANK, WHICH NORMALLY APPROVES ROUTINELY ALL LEGITIMATE TRANSACTIONS. CERTAIN TRANSFERS ABROAD ARE SUBJECT TO A 30 PERCENT LEVY BY THE BOARD OF INLAND REVENUE AS A PROXY FOR TAXES WHICH MIGHT BE PAYABLE IF THE FUNDS WERE EARNED BY LOCAL INTERESTS.

D. INVESTMENT POLICY

1. ALL INVESTMENTS (LOCAL AND FOREIGN) ARE SUBJECT TO COMPLIANCE WITH THE COMPANIES ORDINANCE, WHICH REGULATES FORMATION AND DISSOLUTION OF COMPANIES AND SETS FORTH REQUIREMENTS FOR REGISTRATION. PRIOR TO REGISTRATION, NEW INVESTMENTS FOR MUST BE SCREENED BY THE MINISTRY OF INDUSTRY AND COMMERCE (THROUGH THE INDUSTRIAL DEVELOPMENT CORPORATION) FOR COMPATIBILITY WITH ECONOMIC DEVELOPMENT OBJECTIVES AND BY THE CAPITAL ISSUES COMMITTEE FOR APPROVAL OF THE TRANSFER OF SHARES. A COMPREHENSIVE REVISION OF THE COMPANIES ORDINANCE IS UNDER WAY. IN ADDITION, FOREIGN INVESTMENTS ARE SCREENED BY THE ALIEN'S LANDHOLDING COMMITTEE FOR COMPLIANCE WITH THE ALIEN'S LANDHOLDING ORDINANCE; WHILE THE PRIMARY PURPOSE OF

THIS PROCEDURE IS TO REVIEW LEASES OR PURCHASES OF PROPERTY
(THE LATTER NOT NORMALLY GRANTED TO ALIEN FIRMS OR
INDIVIDUALS),
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THE INQUIRIES OF THE COMMITTEE ARE OFTEN BROADER THAN THAT
IN PRACTICE.

E. LABOR FACTORS

1. MOST OF THE WORKERS EMPLOYED IN INDUSTRIES WHERE FOREIGN
INVESTMENT IS INVOLVED ARE ORGANIZED. WHILE THE EFFECTIVENESS
AND BARGAINING POWER OF TRINIDADIAN UNIONS VARY CONSIDERABLY
FROM UNION TO UNION, THE MAJORITY OF THOSE IN SUCH INDUSTRIES
SHOULD BE CLASSIFIED AS STRONG. LABOR RELATIONS ARE GOVERNED
BY THE INDUSTRIAL RELATIONS ACT (IRA), WHICH PROVIDES,
INTER ALIA, FOR RECOURSE TO AN INDUSTRIAL COURT FOR
RESOLUTION OF DISPUTES WHICH CANNOT BE RESOLVED AT THE
COLLECTIVE BARGINING LEVEL.

2. LABOR IS RELATIVELY EXPENSIVE, AND THIS COMBINED WITH
AN APPRECIATION OF AND PREFERENCE FOR THE MOST MODERN
TECHNOLOGY HAS LED TO A TENDENCY TOWARD A CAPITAL-
INTENSIVE INDUSTRIAL STRUCTURE. CONSIDERABLE EMPHASIS HAS
BEEN GIVEN BY THE POST-INDEPENDENCE GOVERNMENT TO EDUCATION,
AND A SUBSTANTIAL MAJORITY OF THE LABOR FORCE HAS AT LEAST
THE EQUIVALENT OF A JUNIOR HIGH SCHOOL EDUCATION. SOME
SKILLS ARE IN SHORT SUPPLY, HOWEVER, AND MANY OF THE HIGH-
TECHNOLOGY INDUSTRIES BEING PLANNED WILL RELY TO SOME EXTENT
ON EXPATRIATE PERSONNEL IN THE INITIAL STAGES. FOREIGN
WORKERS AT ALL LEVELS REQUIRE WORK PERMITS; THESE ARE NOT
GRANTED IF IT IS BELIEVED THAT THE JOB CAN BE FILLED BY A
RESIDENT OF TRINIDAD AND TOBAGO.

F. OPIC INSURANCE

1. AN AGREEMENT WITH THE GOVERNMENT OF TRINIDAD AND TOBAGO
ON INVESTMENT GUARANTEES ENABLES THE ISSUANCE OF OPIC
INSURANCE ON INVESTMENTS IN THIS COUNTRY. RECENT OPIC GUIDE-
LINES RESTRICTING THE ISSUANCE OF INSURANCE IN COUNTRIES WITH
PER CAPITA INCOMES IN EXCESS OF \$1,000 WOULD HOWEVER LIMIT
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ELIGIBILITY FOR SOME TYPES OF INVESTMENT IN TRINIDAD AND
TOBAGO (WHICH NOW HAS A PER CAPITA INCOME OF ABOUT \$2,000),
AND INTERESTED INVESTORS SHOULD CONSULT WITH OPIC TO

DETERMINE ELIGIBILITY IN EACH CASE.

G. FUTURE TRENDS

1. NO CHANGES IN BASIC INVESTMENT POLICIES ARE FORESEEN IN THE NEXT SEVERAL YEARS. AS NOTED ABOVE, HOWEVER, WE ANTICIPATE INCREASED PRESSURE FOR EXISTING FOREIGN COMPANIES TO CONFORM TO THE GOVERNMENT'S POLICY REQUIRING MAJORITY LOCAL OWNERSHIP.

H. STATISTICAL INFORMATION

1. THERE ARE NO RELIABLE ESTIMATES OF FOREIGN PRIVATE INVESTMENT IN TRINIDAD AND TOBAGO. THE EMBASSY'S BEST "GUESSTIMATE" ON THE BOOK VALUE OF FOREIGN DIRECT INVESTMENT IS AS FOLLOWS: TOTAL, \$950 MILLION; U.S., \$700 MILLION; UNITED KINGDOM, \$80 MILLION; CANADA, \$60 MILLION; ALL OTHERS, \$110 MILLION.

2. FYI, NOT FOR PUBLICATION: THE ABOVE FIGURES REPRESENT A SUBSTANTIAL REDUCTION FROM ESTIMATES MADE BY THE EMBASSY IN REF (B). THE REASONS FOR THE REDUCTION INCLUDE: THE SALE OF TEXACO'S RETAIL OPERATIONS, WHICH ROUGHLY OFFSETS THE ONLY NEW MAJOR INVESTMENT BY THE END OF 1977 (A W.R. GRAVE INVESTMENT IN A JOINT VENTURE WITH THE GOTT); A REEVALUATION OF EXISTING INFORMATION (FOR EXAMPLE, THE FIGURE PREVIOUSLY USED FOR THE MANUFACTURING SECTOR IS INCOMPATIBLE WITH THE TOAL FOR THIS SECTOR LISTED UNDER "OTHER" CATEGORY WHICH INCLUDES TRINIDAD AND TOBAGO PUBLISHED IN THE AUGUST 1977 SURVEY OF CURRENT BUSINESS); AND THE UNCLASSIFIED

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GOVERNMENT'S POLICY OF SEEKING LOCAL MAJORITY OWNERSHIP OF FOREIGN COMPANIES, WHICH UNTIL NOW HAS BEEN FURTHEST ADVANCED AMONG THE BRITISH COMPANIES. END FYI.
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